

CALIFORNIA DEPARTMENT OF FOOD AND AGRICULTURE
AUDIT OFFICE

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CALIFORNIA GARLIC AND ONION RESEARCH ADVISORY BOARD
AUDIT REPORT #09-072

CALIFORNIA GARLIC AND ONION
RESEARCH ADVISORY BOARD

AUDIT REPORT

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Mr. Robert Maxie, Branch Chief
Marketing Services
California Department of Food and Agriculture
1220 N Street
Sacramento, California 95814

The California Department of Food and Agriculture (CDFA), Division of Marketing Services, Marketing Branch, requested the Audit Office to perform a limited scope fiscal and compliance audit of California Garlic and Onion Research Advisory Board (Advisory Board). The objective of this audit was to determine whether certain activities and expenditures incurred by the Advisory Board comply with the law and are within Board authority. In addition, our office was to identify any internal control weaknesses we noted upon examination of the Advisory Board's financial records.

The audit scope was limited by the Marketing Branch as it related to certain expenditures. Most notably, the Marketing Branch has allowed the State's marketing orders to implement a travel policy that can be applied retroactively to the audit period. This travel policy allows for the State's marketing orders to incur lodging and per diem expenses up to three times the current State rate. Therefore, our office has been instructed to only report amounts that exceeded this threshold.

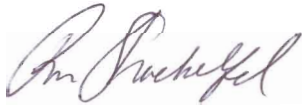
Furthermore, our audit scope was limited to May 1, 2006 through April 30, 2009. Although the scope was limited to these years, our office expanded the scope to include information that covered other years if it was readily accessible and/or may have assisted us in understanding a particular issue.

To accomplish the overall audit objectives, our audit methodology consisted of, but was not all inclusive of, reviewing the Advisory Board's:

- Compliance with various rules and regulations
- Policy Manuals
- Internal controls
- General ledger detail and various financial related documents
- Board and Committee minutes
- Expenses and supporting documentation, including credit card statements and corresponding receipts for each charge
- Contracts

We conducted our audit in accordance with Generally Accepted Government Auditing Standards, issued by the Comptroller General of the United States.

This audit report is intended solely for the information and use of the management of the CDFA and California Garlic and Onion Research Advisory Board and should not be used for any other purpose.



Ron Shackelford, CPA
Chief, Audit Office
(916) 651-8774

EXECUTIVE SUMMARY

The California Department of Food and Agriculture, Division of Marketing Services, Marketing Branch, requested the CDFA Audit Office to perform a limited scope fiscal and compliance audit of the California Garlic and Onion Research Advisory Board to determine whether certain activities and expenditures incurred comply with the law and are within Board authority. In order to accomplish this, our primary focus was the Advisory Board's expenses and compliance with various rules and regulations. The following administrative weaknesses were noted:

- The Advisory Board paid for administrative and technical service fees and reimbursed for business related expenses without a formal contract signed by both parties. Instead, our office was provided with a contract proposal prepared in 2005 between the Advisory Board and the vendor and annual letters from the CDFA Marketing Branch approving the annual fee. A formal contract signed by both parties and outlining the terms of performance, payment, and scope of services would improve internal controls by mitigating any possible disputes between the two parties.
- The Advisory Board should strengthen its internal controls over research grants. The grantees are not required to provide progress reports or a final accounting over the grant money awarded them. The funding paid to grantees is based on an invoice stating the amount due. The final payment is paid when the final research report is completed. Timelier oversight by the Advisory Board would help ensure that the all amounts paid for research were used for their intended purposes.

KEY RECOMMENDATIONS

1. *The Advisory Board should ensure it has written contracts for all services. The written contract should identify the parties involved; outline the terms for performance, payment, and scope; and be signed by both parties to mitigate any disputes. Additionally, the contract should specifically identify the maximum amount and types of allowed reimbursable business expenses.*
2. *The Advisory Board should improve its internal controls over grant awards by requiring grantees to provide additional financial information, such as progress reports and a final accounting of expenses applied against the grant. The purpose of these reports is to improve monitoring of grant awards and provide more transparency over actual expenditures billed by researchers to the grant contract.*

REPORTABLE FINDING

INTERNAL CONTROL WEAKNESSES IN CONTRACTS

For the audit period, our office noted one vendor was paid \$42,000 annually for administrative and technical service provided to the Advisory Board without a formal contract. In addition, our office noted this vendor was reimbursed approximately \$10,000 to \$15,000 annually for business related expenses. This contractor has been providing services to the Advisory Board since 2005. In 2005, Board minutes identify the Board of Directors reviewed and approved the contractor's written proposal and accompanying job duty statement. However, no formal written agreement was prepared and entered into by the Advisory Board and the Contractor. According to the 2005 proposal, the contractor is to be paid \$42,000 annually and reimbursed for business related expenses. Neither a budget amount nor ceiling for the business related expenses was specified in the proposal. To further support the amount paid to the contractor, the Board provided our office annual one page letters addressed to the vendor from California Department of Food and Agriculture, Division of Marketing Services, indicating that the annual fee of \$42,000 for administrative and technical services was approved. However, allowed reimbursable business expenses were not mentioned in these letters. A formal contract, which is signed by all parties involved, clearly identifies the parties, term for the service, payment, scope, and other terms and conditions, such as allowed expenses to be reimbursed.

Recommendation

- 1. The Advisory Board should ensure it has written contracts for all services. The written contract should identify the parties involved; outline the terms for performance, payment, and scope; and be signed by both parties to mitigate any disputes. Additionally, the contract should specifically identify the maximum amount and types of allowed reimbursable business expenses.*

INTERNAL CONTROL WEAKNESSES IN RESEARCH GRANT CONTRACTS

Based on the general ledger, the Advisory Board has awarded between \$50,762 and \$115,032 annually to various organizations for crop research. Based on our analysis of the research grants, our office noted that a detailed final accounting of the grant money awarded to the organizations was not required prior to issuance of the final payment of the grant. Instead, the researchers provided an invoice to the Advisory Board stating only the balance due to the researchers. We noted these invoices do not have sufficient detail as to how the grant money was spent. The invoices only indicated the award amount and the balance due based on the research contract.

The Advisory Board should hold the grantees more accountable for the funds awarded, to ensure the funds are used solely for the intended purpose. Although a budget is included in the grant contract, the Advisory Board should not rely only on the budget presented to account for the final expenses, since the actual expenditures incurred could vary significantly from the budgeted amount. Our office recommends the Advisory Board require grantees to

provide progress reports and a final accounting for the grant funds awarded to them. Progress reports are useful analytical tools that provide supplementary information regarding the status of the grant projects and could possibly identify any potential concerns or questions the Advisory Board may have. In addition, a final accounting of actual expenses would allow the Advisory Board to determine whether use of the grant award was for the intended purpose and whether any grant money remained unspent. Ultimately, these reports will improve internal controls by providing more transparency over expenditures incurred by the researchers.

Recommendation

2. *The Advisory Board should improve its internal controls over grant awards by requiring grantees to provide additional financial information, such as progress reports and a final accounting of expenses applied against the grant. The purpose of these reports is to improve monitoring of grant awards and provide more transparency over actual expenditures billed by researchers to the grant contract.*

**CALIFORNIA GARLIC AND ONION RESEARCH ADVISORY BOARD'S
RESPONSE**



California Garlic & Onion
Research Advisory Board

March 12, 2010

Mr. Ron Shackleford, CPA
Chief, Audit Office
California Department of Food and Agriculture
2014 Capitol Avenue, Suite 107
Sacramento, CA 95811

Dear Mr. Shackleford:

**SUBJECT: WRITTEN RESPONSE TO AUDIT FOR CALIFORNIA GARLIC AND
ONION RESEARCH ADVISORY BOARD (AUDIT REPORT #09-072)**

On behalf of the California Garlic and Onion Research Advisory Board, I herewith submit for the review and approval by the California Department of Food and Agriculture, Audit Office a response to the key recommendations noted in Audit Report #09-072 dated August 3, 2009:

1. The Advisory board should ensure it has written contracts for all services. The written contracts should identify the parties involved; outline the terms for performance, payment and scope; and be signed by both parties to mitigate any disputes. Additionally, the contract should specifically identify the maximum amount and types of allowed reimbursable business expenses.

Response: At the California Garlic and Onion Research Advisory Board meeting on November 12, 2009, the Board Policy Manual, Section 300.3, was amended to include the statement: "A formal contract signed by both parties and outlining the terms of performance, payment, and scope of services shall be consummated each year". The policy manual specifically identifies the process for reimbursement of travel and business expenses. Additionally, the annual budget that is approved by the Board specifically identifies travel/lodging/meal expense allowed for the CEO. A copy of the revised Policy Manual is submitted with this letter.

2. The Advisory Board should improve its internal controls over grant awards by requiring grantees to provide additional financial information, such as progress reports and a final accounting of expenses applied against the grant. The purpose of these reports is to improve monitoring of grant awards and provide more transparency over actual expenditures billed by researchers to the grant contract.

Response: At the same November 12, 2009, California Garlic and Onion Research Advisory Board meeting, the Board Policy Manual was also amended to include the following statement under Section 600.1, Standard Contract Terms, Item #6 Research: "Recipients of research contracts shall be paid in three installments, the first of which will be for 50% paid upon execution of the contract, second of which will be 40% and paid at completion of research project, and the last which shall be paid within 15 days of the Board's receipt of the final report. Recipients of research

grants shall be required to provide progress reports and a financial accounting of the money awarded them and to present results at the Board's spring meeting."

During the audit, reviewers looked at invoices and contracts signed with University researchers. The reviewers, however, did not look at the research proposals tied to the contract. The proposals always provide in-depth explanations as to how money awarded will be spent. The research contract process involves a request for proposals, a review of proposals by University of California staff and then a review by the Board's Research Sub-committee. A University of California advisor is assigned to the Board's Research Sub-committee and coordinates the request for and review of proposals submitted for review.

Should you have questions or need additional information please contact me by telephone at 559.297.9322 or by e-mail at robertehn@sbcglobal.net.

Sincerely,



Robert C. Ehn
CEO/Technical Manager
California Garlic and Onion Research Advisory Board



Kevin Lehar
Board Chairman
CA Garlic and Onion Research Advisory Board

Enclosure(s)

cc: Joe Monson, Marketing Branch, California Department of Food and Agriculture

CDFA EVALUATION OF RESPONSE

A draft copy of this report was forwarded to the management of the California Garlic and Onion Research Advisory Board for its review and response. We have reviewed the response. To provide clarity and perspective, we are including additional comments to the Advisory Board's response to our audit report section Internal Control Weaknesses in Research Grant Contracts.

The Advisory Board stated that the research proposals tied to the contract were not reviewed by the auditors. According to the Advisory Board the research proposals provides an in-depth explanation as to how money awarded will be spent.

Research proposals still do not provide the required accountability discussed in the above section. Proposals cannot be fully relied on since they only outline "how money awarded will be spent." The final, actual expenses may differ from the amounts in the proposal. Therefore, the Advisory Board's implementation of our recommendation requiring researchers to provide progress reports and final accounting of the money spent will improve accountability over grant awards.

DISPOSITION OF AUDIT RESULTS

The findings in this report are based on fieldwork my staff performed on June 8-19, 2009. My staff discussed by phone with management on June 12, 2009 and July 13, 2009 for a preliminary exit to discuss the findings and recommendations, as well as other issues.

This report is intended for the CDFA and the Advisory Board for their review and action if necessary. However, this report is public document and its distribution is not restricted.

REPORT DISTRIBUTION

<u>Number</u>	<u>Recipient</u>
1	Chairman, California Garlic and Onion Research Advisory Board
1	Director, CDFA Marketing Services Division
1	Branch Chief, CDFA Marketing Branch
1	Chief Counsel, CDFA Legal Office
2	Chief, Audit Office